Lakeshore Public Academy

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2006

Lakeshore Public Academy

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This section of the Lakeshore Public Academy's annual financial report presents our discussion and analysis of the School's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Lakeshore Public Academy financially as a whole. The school-wide financial statements provide information about the activities of the whole School, presenting both an aggregate view of the School's finances and a longer-term view of those finances. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School's operations in more detail than the school-wide financial statements by providing information about the School's most significant fund—the General Fund. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School acts solely as an agent for the benefit of students and parents. The basic financial statements are comprised of the following elements:

Management's Discussion and Analysis (MD&A) (Required Supplementary Information)

Basic Financial Statements

School-wide Financial Statements
Fund Financial Statements
Notes to Financial Statements

Budgetary Information for the Major Fund (Required Supplementary Information)

Reporting the School as a Whole—School-wide Financial Statements

One of the most important questions asked about the School's financial statements is what are the statement of net assets and the statement of activities, which appear first in the School's financial statements. These statements report information on the School as a whole and its activities in a way that helps you better understand the school. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School's net assets—the difference between assets and liabilities, as reported in the statement of net assets—as one way to measure the School's financial health or financial position. Over time, increases or decreases in the School's net assets—as reported in the statement of activities—are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the schools operating results. The School's goal is to provide services to our students, not to generate profits as a commercial entity. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School.

The statement of net assets and statement of activities report the governmental activities for the School, which encompass all of the School's services, including instruction and support services. Unrestricted State Aid (foundation allowance revenue), and federal grants finance most of these activities.

Reporting the School's Most Significant Funds – Fund Financial Statements
The School's fund financial statements provide detailed information about the most significant funds—not the School as a whole. Some funds are required to be established by state law and bond covenants. However, the School has established other funds to help it control and manage money for particular purposes. The governmental funds of the School use the following accounting approach:

Governmental funds—All of the School's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation statement.

The School as a Whole
Recall that the statement of net assets provides the perspective of the School as a whole. The following table provides a summary of the School's net assets as of June 30, 2006.

Statement of Net Assets

	2006	2005
Assets		
Current and Other Assets	$ 272,101	$ 251,678
Capital Assets	1,706,607	1,760,738
Total Assets	1,978,708	2,012,416
Liabilities		
Current Liabilities	1,301,770	129,931
Long-term Liabilities	451	1,248,656
Total Liabilities	1,302,221	1,378,587
Net Assets		
Invested in Capital Assets, Net of Related Debt	444,856	450,082
Unrestricted	231,631	183,747
Total Net Assets	$ 676,487	$ 633,829

The analysis on the previous page focuses on the net assets. Capital assets net of depreciation decreased due to normal depreciation exceeding current year capital asset additions. Current liabilities increased and long-term liabilities decreased due to the balloon payment due on the mortgage in February 2007. The School's total net assets increased during the year and are divided into two categories. Capital assets, net of related debt totaling $444,856 compares the original cost (less depreciation) of the School's capital assets to long-term debt used to finance the acquisition of those assets. Capital assets, net of related debt, decreased due to depreciation of capital assets exceeding debt retirement and current year capital asset purchases. The remaining amount of net assets $231,631 was unrestricted.

The results of this year's operations for the School as a whole are reported in the statement of activities, which shows the changes in net assets for fiscal year 2006. Revenue and expense comparison to fiscal year 2005 is listed below.

Statement of Activities

	2006	2005
Program Revenues		
Operating Grants	$ 119,549	$ 114,116
General Revenues		
Grants and Contributions Not Restricted to Specific Programs	916,581	797,762
Miscellaneous	1,661	10,758
Total Program Revenues and General Revenues	1,037,791	922,636
Expenses		
Instruction	477,057	457,156
Support Services	307,355	274,276
Food Services	15,064	-
Athletics	20,872	-
Interest on Long-term Debt	116,324	105,958
Unallocated Depreciation	58,461	58,266
Total Governmental Activities	995,133	895,656
Change in Net Assets	42,658	26,980
Net Assets at Beginning of Year	633,829	606,849
Net Assets at End of Year	$ 676,487	$ 633,829

Increase in Net Assets
The School experienced an increase in net assets of $42,658. This increase in net assets was an improvement from the prior year. The improvement was primarily the result of an increase in the student enrollment and the related increase in funding offset by additional costs of higher enrollment. Instruction expenses increased primarily due to a new high school teaching position. Support service increased due to additional board expenses, increase in advertising and an increase in fiscal salaries and associated benefit costs due to an increase in salary and hours worked. In addition, the School offered a food service program for the first time. Interest on long-term debt increased due to an increase in interest rates throughout the year. The overall results of the above items was an improvement in the change in net assets of $15,678.

The School's Funds
As we noted earlier, the School uses funds to help it control and manage money for specific purposes. The General Fund ended the year with an increase in fund balance of $47,884. As noted above this increase was a result of an increase in enrollment partially offset by an increase in various expenses. In addition to the expenditures noted in the previous paragraph, debt service principal costs decreased this year. This decrease is the result of the prior year including a one time additional principal payment of approximately $50,000. The General Fund ended the year with a fund balance of $231,631.

General Fund Budgetary Highlights
Over the course of the year, the School revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. Below is a list of the more significant amendments to the original budget.

Revenues

- State sources were amended higher due to the increase in student enrollment.

Expenditures

- Basic programs budget was lowered due to a drop in salaries and fringe benefits.
- Added needs budget was increased due to an increase in special education salaries and fringe benefits.
- School administration budget was increased due to an unexpected increase in telecommunication costs.
- The Business office budget was increased due to an increase in wages due to an increase in hours worked.
- Operations and maintenance budget was increased in anticipation of additional maintenance work and for the addition of a day time custodian position.
- Pupil transportation was increased due to offering new services not included in the original budget.

The final amendment to the budget was adopted just before the end of the year. (A schedule showing the School's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information section of these financial statements.) Below is a list of significant budget to actual variances.

Expenditures

- Added needs came in under budget due to not utilizing all the Title I and At-risk funds available.
- The operations and maintenance actual was under budget due to not completing anticipated building repairs.
- Debt service principal payments were under budget and interest payments were over budget due to a significant increase in interest rates during the year. In total, debt service expenditures were under budget for the year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the School had $1,706,607 (after accumulated depreciation) invested in a broad range of capital assets, including land, buildings, vehicles, and furniture and equipment as described in footnote D. This amount represents a net decrease (additions, net of deductions and depreciation) of $54,131 from last year. This decrease is the result of depreciation exceeding the current year capital asset additions. There were no significant capital additions during the year.

Debt

At June 30, 2006, the School had $1,261,751 in debt which is explained in more detail in footnote E. During the year, the School had no additional borrowing and made all scheduled debt payments. The largest outstanding debt is the mortgage on the building. This mortgage has an adjustable rate and the interest rate increased from 8 percent at June 30, 2005 to 10 percent at June 30, 2006.

Economic Factors and Next Year's Budget

Our administration considered many factors when setting the School's 2007 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent and 75 percent of the February 2006 and September 2006 student counts, respectively. The original 2007 budget was adopted in June 2006, based on an estimate of students to be enrolled of 120. The actual student count in September 2006 was well below the anticipated enrollment utilized in preparing the original budget. In addition, the School will also need to revise its budget for an unanticipated increase in pension costs. These two factors will require management to reexamine the original budget and cut costs. Management is currently working on a budget amendment.

The School also has a balloon payment due on the building mortgage in February 2007. The School will seek various options such as an extension, renewal or refinancing of the mortgage.

Approximately 94 percent of total General Fund revenue comes from the State foundation grant and categorical payments. Since the School's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to Schools. The State periodically holds a revenue-estimating conference to estimate revenues. If actual revenues are less than projected, the State of Michigan may reduce the per pupil funding.

Contacting the School Financial Management

The financial report is designed to provide a general overview of the School's finances for all those interested in the School's finances. If you have any questions about this report or need additional information, contact the Lakeshore Public Academy, 6023 N. 72nd Ave., Hart, Michigan 49420.

INDEPENDENT AUDITORS' REPORT

October 23, 2006

Board of Directors
Lakeshore Public Academy
Hart, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lakeshore Public Academy (the School), as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lakeshore Public Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Lakeshore Public Academy, as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note J to the financial statements, Lakeshore Public Academy incurred certain related party transactions in the prior years which were not disclosed in accordance with Financial Accounting Standard No. 57, *Related Party Disclosure*.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 23, 2006, on our consideration of Lakeshore Public Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i - vi and page 20, are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Brickley DeLong, PLC

Lakeshore Public Academy
STATEMENT OF NET ASSETS
June 30, 2006

ASSETS

		Governmental activities
CURRENT ASSETS		
Cash and cash equivalents	$	102,603
Due from other governmental units		169,498
Total current assets		272,101
NONCURRENT ASSETS		
Capital assets, net		
Nondepreciable		20,000
Depreciable		1,686,607
Total noncurrent assets		1,706,607
Total assets		1,978,708

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities		33,207
Due to other governmental units		7,263
Notes and capital leases payable, due within one year		1,261,300
Total current liabilities		1,301,770
NONCURRENT LIABILITIES		
Notes and capital leases payable, less amounts due within one year		451
Total liabilities		1,302,221
NET ASSETS		
Invested in capital assets, net of related debt		444,856
Unrestricted		231,631
Total net assets	$	676,487

The accompanying notes are an integral part of this statement.

Lakeshore Public Academy

STATEMENT OF ACTIVITIES

For the year ended June 30, 2006

Functions/Programs	Expenses	Program Revenue: Operating grants and contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental activities
Governmental activities			
Instruction	$ 477,057	$ 114,510	$ (362,547)
Support services	307,355	5,039	(302,316)
Food services	15,064	-	(15,064)
Athletics	20,872	-	(20,872)
Interest on long-term debt	116,324	-	(116,324)
Unallocated depreciation	58,461	-	(58,461)
Total governmental activities	$ 995,133	$ 119,549	(875,584)
General revenues			
Grants and contributions not restricted to specific programs			916,581
Investment earnings			1,636
Miscellaneous			25
Total general revenues			918,242
Change in net assets			42,658
Net assets at July 1, 2005			633,829
Net assets at June 30, 2006			$ 676,487

The accompanying notes are an integral part of this statement.

Lakeshore Public Academy
BALANCE SHEET
Governmental Funds
June 30, 2006

	General Fund	Other governmental funds	Total governmental funds
ASSETS			
Cash and cash equivalents	$ 102,603	$ -	$ 102,603
Due from other governmental units	169,498	-	169,498
Total assets	$ 272,101	$ -	$ 272,101
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	$ 24,101	$ -	$ 24,101
Accrued liabilities	9,106	-	9,106
Due to other governmental units	7,263	-	7,263
Total liabilities	40,470	-	40,470
Fund balances			
Unreserved	231,631	-	231,631
Total liabilities and fund balance	$ 272,101	$ -	$ 272,101

The accompanying notes are an integral part of this statement.

Lakeshore Public Academy

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2006

Total fund balance—governmental fund		$ 231,631
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds.		
Cost of capital assets	$ 2,016,868	
Accumulated depreciation	(310,261)	1,706,607
Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		(1,261,751)
Net assets of governmental activities in the Statement of Net Assets		$ 676,487

The accompanying notes are an integral part of this statement.

Lakeshore Public Academy

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Governmental Funds

For the year ended June 30, 2006

	General Fund	Other governmental funds	Total governmental funds
REVENUES			
Local sources			
Investment earnings	$ 1,636	$ -	$ 1,636
Other	25	-	25
Total local sources	1,661	-	1,661
State sources	980,861	-	980,861
Federal sources	55,269	-	55,269
Total revenues	1,037,791	-	1,037,791
EXPENDITURES			
Current			
Instruction	477,057	-	477,057
Support services	310,250	-	310,250
Food services	-	15,064	15,064
Athletics	-	20,872	20,872
Debt service			
Principal	48,905	-	48,905
Interest and other charges	116,324	-	116,324
Total expenditures	952,536	35,936	988,472
Excess (deficiency) of revenues over (under) expenditures	85,255	(35,936)	49,319
OTHER FINANCING SOURCES (USES)			
Transfers in	-	35,936	35,936
Transfers out	(35,936)	-	(35,936)
Transfers to other governmental units and other transactions	(1,435)	-	(1,435)
Total other financing sources (uses)	(37,371)	35,936	(1,435)
Net change in fund balances	47,884	-	47,884
Fund balances at July 1, 2005	183,747	-	183,747
Fund balances at June 30, 2006	$ 231,631	$ -	$ 231,631

The accompanying notes are an integral part of this statement.

Lakeshore Public Academy

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2006

Net change in fund balances—total governmental funds		$ 47,884
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.		
Depreciation expense	$ (58,461)	
Capital outlay	4,330	(54,131)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		48,905
Change in net assets of governmental activities		$ 42,658

The accompanying notes are an integral part of this statement.

Lakeshore Public Academy

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

Fiduciary Funds

June 30, 2006

		Agency Fund
ASSETS		
Cash and cash equivalents	$	1,669
LIABILITIES		
Deposits held for others	$	1,669

The accompanying notes are an integral part of this statement.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lakeshore Public Academy (School) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

Reporting Entity
The School is governed by an appointed seven-member Board of Directors (Board), which has responsibility and control over all activities related to public school education within the School. The School receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

School-wide and Fund Financial Statements

School-wide Financial Statements – The primary focus of School-wide financial statements is on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities. The School-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements. The School-wide financial statements categorize primary activities as either governmental or business type. All of the School's activities are classified as governmental activities.

In the School-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The School-wide Statement of Activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School does not allocate indirect costs.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

School-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from School-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School functions typically are financed. The acquisition, use and balances of the School's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School reports the following major governmental fund:

- The *General Fund* is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes. The School accounts for its food service and athletic activities in the school service special revenue funds.

Fiduciary funds – Fiduciary funds account for assets held by the School in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School under the terms of a formal trust agreement. Fiduciary funds are not included in the School-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School holds for others in an agency capacity (primarily student activities).

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method
The School-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method
Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation—Continued

State Revenue
The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to Schools based on information supplied by the Schools. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30, 2006 is reported as due from other governmental units.

The School also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Other Accounting Policies

Deposit and Investments
Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School reports its investments in accordance with GASB Statement No. 31, *Accounting Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School intends to hold the investment until maturity.

State statutes authorize the School to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School's deposits and investments are in accordance with statutory authority.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Capital Assets
Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School as assets with an initial cost of more than $500 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than $500 as composite groups for financial reporting purposes. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	50 years
Furniture and equipment	5-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Deferred Revenue
Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Long-term Obligations
In the School-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Net Assets In School-wide Financial Statements
Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity in Fund Financial Statements
The School reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting
Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The designated responsible official submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgets and Budgetary Accounting—Continued

3. Prior to July 1, the budget is legally adopted by Board of Directors resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The designated responsible official is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The School does not consider these amendments to be significant.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2006, expenditures exceeded budget in interest and other charges. These over expenditures were funded by reduction in other expenditures and use of existing fund balance.

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School has no investment policy that would further limit its investment choices.

Concentration of credit risk. The School does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2006, $44,633 of the School's bank balance of $144,633 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The School does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The School is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	$ 20,000	$ -	$ -	$ 20,000
Total capital assets, not being depreciated	20,000	-	-	20,000
Capital assets, being depreciated:				
Buildings and improvements	1,808,416	-	-	1,808,416
Furniture and equipment	192,591	4,330	8,469	188,452
Total capital assets, being depreciated	2,001,007	4,330	8,469	1,996,868
Less accumulated depreciation:				
Buildings and improvements	147,055	37,584	-	184,639
Furniture and equipment	113,214	20,877	8,469	125,622
Total accumulated depreciation	260,269	58,461	8,469	310,261
Total capital assets, being depreciated, net	1,740,738	(54,131)	-	1,686,607
Capital assets, net	$ 1,760,738	$ (54,131)	$ -	$ 1,706,607

Depreciation

Depreciation expense has been charged as unallocated depreciation.

NOTE E—INTERFUND TRANSFERS

The General Fund transferred $15,064 and $20,872 to the Food Service and Athletics Funds, respectively, to finance operations.

NOTE F—LONG-TERM OBLIGATIONS

The School issues notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. Other long-term obligations include capital leases.

Summary of Long-term Obligations
The following is a summary of long-term obligations activity for the School for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006	Due within one year
Governmental activities:					
Installment loan is payable in monthly installments of $12,950, including interest at prime plus 1.5% (10.0% at June 30, 2006) with a balloon payment due February 2007 of approximately $1,250,000. The loan is secured by the building and land.	$ 1,297,989	$ -	$ 40,479	$ 1,257,510	$ 1,257,510
Capital leases for various equipment acquisitions payable in monthly installments varying from $285 to $322, including interest at rates varying from 5% to 6%. Final payment of $285 due July 2007.	12,667	-	8,426	4,241	3,790
	$ 1,310,656	$ -	$ 48,905	$ 1,261,751	$ 1,261,300

The annual requirements of principal and interest to amortize debt outstanding as of June 30, 2006 follows:

Year ending June 30,	Principal	Interest	Total
2007	1,261,300	83,356	1,344,656
2008	451	1	452
	$ 1,261,751	$ 83,357	$ 1,345,108

NOTE G—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first $5,000; 3.6 percent of $5,001 through $15,000; 4.3 percent of all wages over $15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2006, were 16.34 percent of payroll. The contribution requirements of plan members and the School are established and may be amended by the MPSERS Board of Trustees. The School contributions to MPSERS for the year ended June 30, 2006, 2005 and 2004 were approximately $61,700, $60,800, and $52,200, respectively, and were equal to the required contribution for those years.

The School is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE H—CONTINGENCIES

Federal Programs – The School participates in federally-assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School expects such amounts, if any, to be immaterial.

NOTE I—OTHER INFORMATION

Economic Dependence – State of Michigan school aid represents approximately 94 percent of General Fund revenues.

Risk Management – The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for the risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

NOTE J—RELATED PARTY TRANSACTIONS

Custodial Services – In February 2004, the School entered into an independent contractor agreement for custodial services with a Company. The owner of such company is related to a member of the School's Board of Directors. In accordance with Financial Accounting Standards No. 57 *Related Party Disclosures*, this relationship should have been disclosed in the prior year financial statements. There were no amounts due for these services at June 30, 2006 and June 30, 2005. Total expenditures for the prior three years were as follows:

Year ended June 30,	Amount
2004	$11,437
2005	33,975
2006	19,192

In September 2006, the School entered into a ten month agreement with the Company to provide certain custodial services through June 2007 with a total contract amount of approximately $26,250.

REQUIRED SUPPLEMENTARY INFORMATION

Lakeshore Public Academy

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

General Fund

For the year ended June 30, 2006

	Budgeted amounts			Variance with final budget-positive
	Original	Final	Actual	(negative)
REVENUES				
Local sources	$ 300	$ 1,055	$ 1,661	$ 606
State sources	897,020	979,829	980,861	1,032
Federal sources	68,950	65,292	55,269	(10,023)
Incoming transfers and other transactions	10,500	(1,520)	-	1,520
	976,770	1,044,656	1,037,791	(6,865)
EXPENDITURES				
Instruction				
Basic programs	427,145	373,813	370,861	2,952
Added needs	92,720	111,001	106,196	4,805
Support services				
Instructional staff	5,800	8,700	10,530	(1,830)
School administration	134,900	153,737	146,770	6,967
Business	31,200	39,174	39,753	(579)
Operations and maintenance	78,295	97,040	84,807	12,233
Pupil transportation services	15,500	25,320	22,143	3,177
Central	5,000	7,000	6,247	753
Debt service				
Principal	77,254	75,822	48,905	26,917
Interest and other charges	96,817	96,613	116,324	(19,711)
Outgoing transfers and other transactions	25,850	40,524	37,371	3,153
Total expenditures	990,481	1,028,744	989,907	38,837
Excess (deficiency) of revenues over (under) expenditures	$ (13,711)	$ 15,912	47,884	$ (45,702)
Fund balance at July 1, 2005			183,747	
Fund balance at June 30, 2006			$ 231,631	

OTHER DOCUMENTS

BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

October 23, 2006

Board of Directors
Lakeshore Public Academy
Hart, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lakeshore Public Academy as of and for the year ended June 30, 2006, which collectively comprise Lakeshore Public Academy's basic financial statements and have issued our report thereon dated October 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Lakeshore Public Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Lakeshore Public Academy's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The reportable conditions have been reported to the management of Lakeshore Public Academy in a separate letter dated October 23, 2006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Lakeshore Public Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

October 23, 2006

Board of Directors
Lakeshore Public Academy
Hart, Michigan

In planning and performing our audit of the financial statements of Lakeshore Public Academy for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Lakeshore Public Academy's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of the reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable conditions described above are not believed to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

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REPORTABLE CONDITIONS

Recommendation 1: The internal control procedures should be further segregated.

Small organizations with limited resources and personnel inherently have difficulty establishing and maintaining an accounting system with strong internal accounting controls including significant segregation of duties.

The School should continue using its current accounting system, but seek opportunities to further segregate duties and strengthen internal controls. Often, the most effective approach is the expansion of documented approval of transactions and reconciliations by a School Board member or Chief Executive.

Recommendation 2: The Board of Directors should approve expenditures prior to the release of cash disbursement checks.

During our testing, we noted that cash disbursements are not approved by the Board of Directors until after the checks are released.

The Board of Directors approval prior to the release of cash disbursement checks would allow for Board of Directors review and authorization before School funds are expended. However, the Board of Directors may wish to adopt a policy authorizing payment of specific obligations received and due prior to the next scheduled Board of Directors meeting.

Recommendation 3: Employee fringe benefits and payroll taxes should be allocated to the proper general ledger expenditure accounts on a timely basis.

During our testing, we noted some employee fringe benefits and payroll taxes were not allocated. After additional review it was determined that employee fringe benefits and payroll taxes were allocated only a couple times during the year. An accurate distribution of these expenditures is critical to the proper accumulation of costs, especially as these costs relate to federal and state grants.

We recommend the distribution of employee fringe benefits and payroll taxes be allocated and reviewed monthly or at least quarterly. The proper allocation of these costs would help ensure that interim financial statements and grant expenditures reported are accurate.

Recommendation 4: Payroll taxes should be remitted to authorities on a timely basis.

During our testing, we noted that certain remittances of payroll taxes were delinquent causing penalty and interest charges.

The timely remittance of payroll taxes would eliminate penalty and interest charges on such items which at current rates are substantially higher than any other financing source. And there is the possibility of directors and/or officers being held personally liable for any unpaid payroll tax liabilities.